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ABSTRACT

The first section of this report focuses on school finance in Maryland and briefly overviews the relative importance of federal, state and local funding. The next section summarizes state education aid, focusing on policy goals guiding state aid, the brief history of state education aid, and the various approaches Maryland uses to distribute education aid. The third section discusses expenditures and factors contributing to spending differences among school system. Each section examines trends over a period of years to provide a historical perspective. One appendix provides a program-by-program description of many of Maryland's education aid programs, and the second appendix summarizes enhancements made by recent legislation. (DFR)

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Structure of School Finance in Maryland

November 1999

Department of Legislative Services

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Department of Legislative Services

Annapolis, Maryland

November 1999

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Department of Legislative Services

Office of Policy Analysis
Maryland General Assembly

Karl S. Aro
Executive Director

Warren G. Deschenaux
Director

November 10, 1999

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Casper R. Taylor, Jr., Speaker of the House of Delegates
Honorable Members of the Maryland General Assembly

Public education is one of the most important functions of government. In fiscal 1998, Maryland's school systems expended over $6.4 billion for this purpose. This commitment to public schools accounts for nearly 50 percent of spending at the local level. At the State level, State aid for the public schools accounts for over 30 percent of State expenditures funded from general tax dollars. This report summarizes the financing of public education in Maryland. The first section reviews the sources of revenue for education. The next section summarizes State education aid in somewhat greater detail. There is a discussion of policy goals guiding State aid, a brief history of State education aid, and an overview of the various approaches Maryland uses to distribute education aid. The third section discusses expenditures and those factors contributing to spending differences among school systems. In each section there is an examination of trends over a period of years to provide historical perspective. Finally, the first appendix provides a program by program description of many of Maryland's education aid programs, and the second appendix summarizes enhancements made by recent legislation.

This report was prepared by Sarah Dickerson and Hiram Burch with administrative assistance from Kim Wilson. Much of the data derives from annual reports published by the Maryland State Department of Education.

The department trusts the General Assembly will find the report useful as it considers education issues this year, particularly as the Commission on Education Finance, Equity, and Excellence conducts its comprehensive review of the State's current education funding system.

Sincerely,

Karl S. Aro
Executive Director

KSA/SED/kjw

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Structure of School Finance in Maryland

Introduction

The State and county governments share responsibility for Maryland's public schools. Statewide educational policy determination is the responsibility of the State Board of Education with the State Superintendent of Schools and Maryland State Department of Education overseeing the implementation of policies and providing administrative support. The 23 local boards of education and the New Baltimore City Board of School Commissioners, together with each local school superintendent, govern education matters and policy-making within the school district and oversee the daily operations of the local school systems.

This report focuses on school finance in Maryland. The first section briefly overviews the relative importance of federal, State, and local funding. The next section summarizes State education aid. In the third section there is a brief discussion of expenditures and those factors contributing to spending differences among school systems. In each section there is an examination of trends over a period of years to provide historical perspective. Finally, the first appendix provides a program by program description of many of Maryland's education aid programs, and the second appendix summarizes enhancements made by recent legislation.

Revenues

Public schools are funded from federal, State, and local sources as shown in **Exhibit 1**. In fiscal 1998, public schools received approximately $5.7 billion in total funding, of which 54% came from local sources and 41.7% from the State. The federal government provided only 4% of public school funding, which illustrates the relatively small federal role in funding primary and secondary education. The relative shares of funding from each government entity varied little over the ten-year period, fiscal 1988 through 1998.

Education revenues grew more rapidly between fiscal 1988 and 1993, at about 7.2% per year, than in the period from fiscal 1993 to1998, when average annual growth slowed to 5.1% (see **Exhibit 2**). On a per pupil basis, growth in education revenues declined from a 5.2% annual growth rate over fiscal 1988 to 1993 to a 2.9% annual growth rate since fiscal 1993. This diminished per pupil revenue growth in the 1990's reflects continued enrollment growth, recession-driven fiscal constraints in the early to mid 1990s, and slowing inflation. Federal, State, and local revenue growth all slowed between the two periods.

Exhibit 1
Education Revenues by Source
(Percent of Total)

Category	Fiscal 1988	Fiscal 1993	Fiscal 1998
Federal	3.9	4.4	4.3
State	40.9	41.9	41.7
Local	55.2	53.7	54.0

Source: Selected Financial Data, Maryland Public Schools, Part 1 - Revenues, selected years, Maryland State Department of Education

Exhibit 2
Education Revenue Trends

	Fiscal 1988	Fiscal 1993	Average Annual Growth	Fiscal 1998	Average Annual Growth
Total Revenues					
Amount (Millions)	$3,129.1	$4,440.0	7.2%	$5,689.3	5.1%
Per Pupil	4,794	6,173	5.2%	7,135	2.9%
Federal Revenue					
Amount (Millions)	123.2	194.2	9.5%	242.2	4.5%
Per Pupil	189	270	7.4%	304	2.4%
State Revenue					
Amount (Millions)	1,279.2	1,862.4	7.8%	2,373.8	5.0%
Per Pupil	1,960	2,589	5.7%	2,977	2.8%
Local Revenue					
Amount (Millions)	1,726.7	2,383.5	6.7%	3,073.4	5.2%
Per Pupil	2,645	3,314	4.6%	3,855	3.1%

Note: Amounts do not include revenues for debt service, school construction, or food services.

Source: Selected Financial Data, Maryland Public Schools, Part 1 - Revenues, selected years, Maryland State Department for Education. Per pupil amounts calculated using total enrollment adjusted for half-day kindergarten and prekindergarten programs.

Although State and federal aid accounts for about 46.0% of total funding for Maryland's public schools, the reliance on that aid varies across the State (see **Exhibit 3**). For example, in fiscal 1998, 22.8% of Worcester County's revenues were from State and federal sources, the smallest share in the State. On the other hand, Baltimore City received 72.7% of its revenues from non-local sources, the largest intergovernmental share. Much of this variance derives from State and federal efforts to target aid to "low wealth" jurisdictions or to school systems with high proportions of students with special needs.

State Aid

Education aid totaling $2.7 billion accounts for over 30% of State general fund expenditures in fiscal 2000. The aid includes $2.2 billion in direct aid and $395 million in teachers' retirement payments on behalf of the local school systems as well as $94 million in debt service payments related to school construction. During the last ten years public education has been a State budget priority. Over this period State education aid increases have averaged 5.4% per year compared to an average annual general fund expenditure increase of 3.6%.

Four Policy Goals Have Guided Funding

Over the past 25 years a number of legislative and executive committees and task forces have reviewed primary and secondary education funding. Many of the recommendations of these study groups have been enacted by the General Assembly. Throughout this period several policy goals have guided State funding of public schools. Among them are the following:

- all Maryland students should have the opportunity to receive a quality education;
- educational opportunities should not depend on a jurisdiction's relative ability to raise revenue from local sources;
- students with special needs may require the commitment of additional educational resources; and
- local school districts have the primary responsibility for the allocation of educational resources; however, certain educational needs, problems, or State policies may require the State to play a greater role.

Exhibit 3

Operating Revenues for Primary and Secondary Education
Fiscal 1998
($ in Thousands)

County	Local Appropriation	Percent	Other Local	Percent	State	Percent	Federal	Percent	Total
Allegany	$21,580	30.9	$1,834	2.6	$41,462	59.3	$5,014	7.2	$69,889
Anne Arundel	274,678	57.9	5,362	1.1	179,696	37.8	14,818	3.1	474,348
Baltimore City	200,553	25.9	10,325	1.3	487,607	62.9	75,689	9.8	772,936
Baltimore	426,130	58.8	5,880	0.8	263,698	36.3	28,912	4.0	724,143
Calvert	50,204	55.1	897	1.0	37,031	40.6	2,989	3.3	91,084
Caroline	10,500	31.2	423	1.3	21,135	62.7	1,639	4.9	33,651
Carroll	82,337	50.2	1,238	0.8	76,325	46.5	4,096	2.5	163,962
Cecil	39,107	43.4	872	1.0	46,617	51.7	3,492	3.9	90,037
Charles	65,412	47.0	4,766	3.4	64,831	46.5	4,381	3.1	139,300
Dorchester	12,866	37.5	751	2.2	18,082	52.6	2,630	7.7	34,288
Frederick	107,305	50.8	2,398	1.1	95,904	45.4	5,716	2.7	211,245
Garrett	12,068	35.9	348	1.0	18,709	55.6	2,505	7.5	33,591
Harford	109,844	47.8	2,110	0.9	111,595	48.5	6,321	2.8	229,747
Howard	184,605	64.6	5,255	1.8	90,306	31.6	5,881	2.1	285,986
Kent	10,790	53.1	196	1.0	7,944	38.9	1,426	7.0	20,314
Montgomery	775,813	75.7	9,255	0.9	217,180	21.1	23,724	2.3	1,025,484
Prince George's	408,086	47.7	16,839	2.0	402,521	46.9	29,690	3.5	856,287
Queen Anne's	22,607	54.7	583	1.4	16,279	39.3	1,863	4.5	41,297
St. Mary's	40,060	44.2	688	0.8	45,224	49.9	4,635	5.1	90,555
Somerset	7,094	31.6	475	2.1	12,538	55.7	2,378	10.6	22,454
Talbot	19,162	70.1	423	1.5	6,505	23.7	1,274	4.7	27,344
Washington	51,661	42.8	657	0.5	62,728	51.9	5,697	4.7	120,653
Wicomico	31,788	37.7	1,730	2.1	46,221	54.7	4,718	5.6	84,371
Worcester	35,395	76.4	414	0.9	7,872	16.9	2,717	5.9	46,356
Statewide	**$2,999,644**	**52.7**	**$73,719**	**1.3**	**$2,378,116**	**41.7**	**$242,204**	**4.3**	**$5,689,324**

Notes: 1) Amounts do not include revenues for school construction, debt service, and food service.
2) "Other local revenues" are revenues generated by the local school system from tuition, transportation, fees, investment, rentals, gifts, and other sources. "Local appropriation" represents each county's appropriation to the school system.

Source: Selected Financial Data, Part 1-Revenues, published annually by the Maryland State Department of Education

Funding Changes in the Last 25 Years

Between fiscal 1974 and 2000 there have been numerous significant changes to Maryland's education funding programs. Through fiscal 1991 the changes generally involved increases in the major education aid programs or the addition of new programs. During the State's fiscal crisis in the early 1990's, most of the adjustments involved program restrictions or reductions. In subsequent years most enhancements have been through new categorical programs, particularly those aimed at helping populations at-risk of failing in school. In addition, accountability for public education spending has been a prevalent theme throughout the 1990s. Major changes to education funding over the previous 25 years are summarized below.

- **Basic Current Expense Formula.** After its enactment in fiscal 1974, the basic current expense formula was adjusted on approximately seven occasions through increases to the foundation amount. Adjustments were also made to the State's share of the foundation amount. (The most recent adjustments were made in 1987.) Currently, this program accounts for about 60% of all aid.

- **Special Education.** In 1977 a public special education formula and a nonpublic placement cost sharing policy were enacted, but relatively few funding changes have occurred since then. In fiscal 1988, the special education formula received its first infusion of new funds after being frozen at $70 million in fiscal 1981. A handicapped student transportation grant was established the next year (fiscal 1989).

- **Compensatory Aid Formula.** The compensatory education program was established in fiscal 1980 and replaced with a "new" compensatory program in 1985 as part of the Civiletti Task Force recommendations to provide additional funds for schools with higher proportions of low income students.

- **Categorical Aid Programs.** Throughout the past 25 years many new categorical aid programs have been established. These include such programs as:

  - extended elementary education - 1980;
  - Prince George's County magnet school aid - 1987;
  - Maryland's tomorrow - 1989;
  - challenge grants - 1993;
  - limited English proficiency grants - 1994;
  - targeted poverty grants - 1995;
  - school reconstitution grants - 1996;
  - performance recognition awards, education modernization initiative, Baltimore County teacher mentoring, and aging school grants - 1997; and
  - additional poverty, targeted improvement, teacher development, and school library grants - 1998.

Many of these programs were also enhanced by the 1997 Baltimore City Schools legislation and/or the 1998 School Accountability for Funding Excellence legislation.

- **Accountability.** Since 1990 several initiatives have been implemented to promote greater spending accountability and to improve the educational performance of students, schools, and school systems. The Maryland School Performance Program provides the framework for outcome and performance-based accountability standards. Student test results on the MSPAP (taken in grades 3,5, and 8) and the Maryland Functional Test (high school), drop out rates, and student attendance serve as the basis for determining the performance of students, schools, and school systems.

- **Fiscal Crisis of the Early 1990s.** Due to the State's recession-driven fiscal crisis, between fiscal 1992 and 1994 the State reduced the growth in education aid by: 1) eliminating State payment of social security benefits for certain educational employees; 2) reducing pupil transportation grants; 3) altering the State/local cost sharing formula for nonpublic special education; 4) temporarily holding local school boards responsible for increases in fringe benefit costs associated with general salary increases for local educators; and 5) reducing the mandated increases in current expense and compensatory funding for fiscal 1994.

- **Baltimore City Schools Legislation (1997).** The fiscal 1998 budget included $30 million for the Baltimore City Public Schools consistent with legislation passed by the 1997 General Assembly (Chapter 105, Acts of 1997) restructuring the management of the city's school system. The legislation stemmed from consent decrees settling several lawsuits involving the Baltimore City Public School System. The five-year funding commitment in the legislation increases to $50 million annually from fiscal 1999 to 2002. The legislation also commits about $31 million annually over five years to the other school systems through various programs. (For components of this legislation see **Appendix 2**.)

- **School Accountability Funding for Excellence (1998).** The School Accountability Funding for Excellence (SAFE) Program, which was established in 1998 as a result of the Counihan Task Force, provided additional targeted State funding for educational programs serving at-risk students. The Act, which provided an additional $67.8 million in State funding to local school districts annually through fiscal 2002: (1) established a new targeted improvement grant, elementary school library grant, and teacher development program; (2) enhanced State funding for non- and limited-English proficiency programs, aging schools, and extended elementary programs; and (3) provided Prince George's County with additional funding for effective school programs, a pilot integrated student support services project, and teacher development initiatives. (For components of this legislation see **Appendix 2**.)

- **Class Size Reduction and Quality Teacher Incentives (1999).** In 1999, the General Assembly established the Learning Success Program to reduce class sizes to a maximum of 20 students for reading instruction in the first and second grades. It is estimated that $40 million in additional State aid would enable the local boards of education to hire 1,000 teachers by fiscal 2005. In the same year, the Quality Teacher Incentive Act was enacted to address increased demand for public school teachers due to increases in enrollment and the number of retirement-eligible teachers.

Mandated Aid for Five Purposes Account for Most Education Aid

Currently, the State funds public schools through about 50 different programs. (See **Exhibit 4** for a three-year summary of education aid by program.) Grants for six purposes -- current expenses, compensatory aid formula, teachers' retirement costs, student transportation costs, and special education programs (both the formula and non-public placements) -- account for most of the aid: $2.36 billion or 90% of the estimated $2.6 billion in fiscal 2000 aid for operating costs. In addition, the fiscal 2000 State budget includes $94 million for debt service on State bonds that funded prior years' school construction projects.

Most education aid ($2.5 billion and 94.5% in fiscal 2000) is mandated by statute. The Governor must include the funding for the mandated programs in the budget submitted to the General Assembly. Reductions to these programs by the General Assembly must result from the re-estimate of those factors determining the funding level or must be specifically authorized by statute. With the exception of $11.3 million in special education funding, aid for the five purposes enumerated above is mandated by statute. Several smaller programs also have a statutorily mandated funding level.

In addition, the 1997 Baltimore City Schools legislation includes a multi-year aid commitment of $61.6 million for fiscal 1998 and $81.6 million for fiscal 1999 through 2002. Failure to appropriate any of this aid in any of the years abrogates the statute and the city school management reforms. This funding commitment accounts for another 3.2% of education aid in fiscal 2000.

The remaining education aid, 2.3%, is discretionary. For these programs, funding levels are at the Governor's discretion. The programs may have been established by statute, but the statute does not require a certain level of funding. Excluding the aid associated with the Baltimore City Schools legislation, there has been little change since fiscal 1991 in the percentage of education aid that is discretionary.

Exhibit 4
State Aid for Primary and Secondary Education
Fiscal 1998 - 2000
($ in Thousands)

Program	FY 1998	% of Total	FY 1999	% of Total	FY 2000	% of Total
Current Expense Aid	1,451,507	61.2%	1,518,740	59.8%	1,567,653	60.1%
Compensatory Aid	80,910	3.4%	101,683	4.0%	119,887	4.6%
Retirement	445,018	18.8%	415,665	16.4%	394,863	15.1%
Transportation Aid - Formula	102,572	4.3%	107,458	4.2%	112,277	4.3%
Transportation Aid - Special Education	4,012	0.2%	4,793	0.2%	5,249	0.2%
Special Education - Formula - Public	81,253	3.4%	81,253	3.2%	81,253	3.1%
Special Education - Nonpublic	61,183	2.6%	69,942	2.8%	76,807	2.9%
Magnet Schools	14,100	0.6%	14,100	0.6%	14,100	0.5%
Challenge Grants	7,639	0.3%	5,639	0.2%	5,789	0.2%
Adult Education	754	0.0%	754	0.0%	754	0.0%
Targeted Poverty Grants	8,000	0.3%	8,000	0.3%	8,000	0.3%
Additional Poverty Grants	18,163	0.8%	18,163	0.7%	18,163	0.7%
Targeted Improvement Grants	0	0.0%	20,646	0.8%	21,400	0.8%
Teacher Development Grants/Mentoring	2,900	0.1%	18,388	0.7%	20,516	0.8%
Extended Elementary	14,897	0.6%	19,263	0.8%	19,263	0.7%
Food Service Aid	4,337	0.2%	4,337	0.2%	4,337	0.2%
Gifted and Talented Program	4,435	0.2%	4,935	0.2%	4,935	0.2%
Limited English Proficiency Grant	7,802	0.3%	23,551	0.9%	25,234	1.0%
Maryland's Tomorrow	9,997	0.4%	9,997	0.4%	9,997	0.4%
Out-of-County Foster Placement	3,550	0.1%	4,750	0.2%	5,600	0.2%
Aging Schools	4,350	0.2%	10,370	0.4%	10,370	0.4%
Baltimore City Partnership	32,950	1.4%	50,000	2.0%	50,000	1.9%
School Reconstitution	1,719	0.1%	9,797	0.4%	9,797	0.4%
Education Modernization Initiative	3,161	0.1%	5,375	0.2%	7,836	0.3%
School Library Media Incentive Program	0	0.0%	3,000	0.1%	3,000	0.1%
Class Size Reduction Initiative	0	0.0%	0	0.0%	1,367	0.1%
Other Programs	7,544	0.3%	10,113	0.4%	10,563	0.4%
Subtotal	**2,372,753**	**100%**	**2,540,712**	**100%**	**2,609,010**	**100%**
Debt Service	82,457		79,258		94,076	
Total	**2,455,210**		**2,619,970**		**2,703,896**	

Note: Aid amounts for fiscal 2000 are legislative appropriations.

Source: Department of Legislative Services, Annual Maryland State budgets

Exhibit 5 shows county-by-county aid distributions for the major aid programs. **Exhibit 6** shows the aid on a per student basis. **Appendix 1** summarizes Maryland's major education aid programs.

Exhibit 5

Estimated State Primary/Secondary Aid
Fiscal 2000
($ in Thousands)

County	Current Expense Formula	Compensatory	Student Transportation	Special Education	Teacher Retirement	Other Programs	Total
Allegany	27,430	3,010	2,564	1,462	4,768	2,812	42,046
Anne Arundel	118,579	3,995	11,028	12,378	34,646	7,369	187,995
Baltimore City	284,567	66,681	10,165	53,163	47,059	85,291	546,927
Baltimore	169,381	7,103	13,500	14,133	51,544	26,093	281,755
Calvert	29,901	687	2,029	940	6,582	1,428	41,568
Caroline	15,139	1,002	1,308	499	2,483	1,790	22,222
Carroll	60,485	1,116	4,287	2,965	11,130	1,998	81,980
Cecil	35,864	1,594	2,406	1,686	6,580	2,619	50,749
Charles	48,117	1,631	4,544	3,363	9,616	3,136	70,408
Dorchester	11,708	1,121	1,291	457	2,371	1,571	18,519
Frederick	74,947	1,796	4,319	3,431	14,640	3,102	102,236
Garrett	11,966	1,126	1,649	536	2,399	1,492	19,169
Harford	85,015	2,512	5,606	4,512	16,336	4,115	118,096
Howard	65,261	1,033	5,388	3,925	20,799	3,476	99,882
Kent	4,698	235	866	353	1,441	952	8,546
Montgomery	101,271	4,317	13,662	14,274	73,459	25,160	232,143
Prince George's	287,398	12,243	19,345	30,187	57,565	50,140	456,878
Queen Anne's	11,912	418	1,491	674	2,879	1,071	18,445
St. Mary's	31,968	1,640	2,946	2,126	6,536	2,392	47,608
Somerset	7,760	984	1,005	352	1,556	1,661	13,318
Talbot	2,713	260	829	268	1,955	1,076	7,101
Washington	44,753	2,464	3,305	2,637	8,617	3,093	64,869
Wicomico	33,497	2,487	2,497	1,053	6,479	3,145	49,157
Worcester	3,322	429	1,495	329	3,423	1,255	10,252
Unallocated	0	0	0	2,359	0	14,783	17,142
Statewide	**1,567,653**	**119,887**	**117,525**	**158,061**	**394,863**	**251,021**	**2,609,010**

Note: 1) Other aid includes amounts distributed under the magnet schools, adult education, county debt service, and food service. Maryland's Tomorrow, extended elementary, out-of-county placement, limited English proficient, targeted poverty grant, and gifted and talented programs.
2) With the exception of retirement programs, the amounts reflect aid distributed to the local boards of education. Retirement amounts are allocated on the basis of salaries.
3) Debt service on State bonds issued for school construction is not included.

Source: Department of Legislative Services, April 12, 1999

Exhibit 6

Estimated State Primary/Secondary Aid -- Per Full-Time Equivalent Student
Fiscal 2000

County	Current Expense Formula	Compensatory	Student Transportation	Special Education	Teacher Retirement	Other Programs	Total
Allegany	2,676	294	250	143	465	274	4,102
Anne Arundel	1,664	56	155	174	486	103	2,637
Baltimore City	2,963	694	106	554	490	888	5,695
Baltimore	1,693	71	135	141	515	261	2,817
Calvert	2,021	46	137	64	445	97	2,810
Caroline	2,825	187	244	93	463	334	4,146
Carroll	2,293	42	163	112	422	76	3,108
Cecil	2,444	109	164	115	448	178	3,458
Charles	2,282	77	216	159	456	149	3,339
Dorchester	2,499	239	276	98	506	335	3,953
Frederick	2,193	53	126	100	428	91	2,991
Garrett	2,443	230	337	109	490	305	3,914
Harford	2,276	67	150	121	437	110	3,161
Howard	1,578	25	130	95	503	84	2,416
Kent	1,761	88	325	132	540	357	3,203
Montgomery	822	35	111	116	596	204	1,884
Prince George's	2,325	99	157	244	466	406	3,696
Queen Anne's	1,858	65	233	105	449	167	2,877
St. Mary's	2,298	118	212	153	470	172	3,422
Somerset	2,747	348	356	125	551	588	4,715
Talbot	643	62	196	64	463	255	1,683
Washington	2,349	129	173	138	452	162	3,404
Wicomico	2,535	188	189	80	490	238	3,720
Worcester	504	65	227	50	519	190	1,555
Statewide	**1,964**	**150**	**147**	**195**	**495**	**296**	**3,248**

Note: 1) Other aid includes amounts distributed under the magnet schools, adult education, county debt service, and food service. Maryland's Tomorrow, extended elementary, out-of-county placement, limited English proficient, targeted poverty grant, and gifted and talented programs.

2) With the exception of retirement programs, the amounts reflect aid distributed to the local boards of education. The retirement amounts are allocated on the basis of salaries.

3) Debt service on state bonds issued for school construction are not included in this table.

4) Based on estimated FTE.

Source: Department of Legislative Services

Maryland Uses Several Approaches to Distribute Education Aid

Consistent with the four policy goals guiding State funding, it is possible to categorize education aid by method of distribution. Five distributional approaches have been developed to classify the aid: workload measures; combination wealth/workload measures; actual costs; prior year's aid; and other approaches. **Exhibit 7** summarizes the classification of aid by distribution method. The exhibit is followed by a description of each category. As the exhibit shows, two approaches account for 84% of Maryland's education aid: almost two thirds of the aid incorporates measures of local wealth and nearly a fifth directly relates to actual educational costs.

Exhibit 7
State Aid By Basis For Distribution
($ in Millions)

	Approp. FY 2000	% of Total
Workload	96.2	3.7
Wealth/Workload	1,720.3	65.9
Actual Costs	471.7	18.1
Prior Years' Aid	182.3	7.0
Other	137.9	5.3
Total	**$2,609**	**100.0**

Workload: Includes programs which distribute aid using indicators of "need" or workload measures. Examples include targeted poverty grants and additional poverty grants (number of students eligible for free or reduced priced school lunches); limited English proficiency grants (number of limited English proficient students); food service aid; transportation for special education students. These programs reflect the policy goal that students with special needs may require the commitment of additional resources.

Wealth/Workload: Several programs utilize a workload measure such as enrollment and distribute aid inverse to local wealth: less wealthy jurisdictions receive relatively more aid. Wealth is usually defined as some combination of property assessable base and net taxable income. Programs utilizing wealth and workload measures include the current expense, compensatory, special education aid, and targeted improvement formulas. These programs address the policy goal that educational opportunities should not depend on the relative ability of local jurisdictions to raise revenues from local sources.

Actual Costs: The State pays all or a portion of the actual costs associated with certain educational services or programs. Examples include the State share of nonpublic special education costs and the State payment of employer retirement costs for local teachers. Basing aid on actual costs assists all school systems with providing educational opportunities.

Prior Years' Aid: For certain programs aid received in one year is based on or equals the aid received in previous years. Examples include grants for school bus transportation (previous year's aid increased by the Consumer Price Index (CPI)) and special education aid (aid equals the amount received in fiscal 1981). Beginning with fiscal 1998, the transportation program also incorporates a workload measure (enrollment growth).

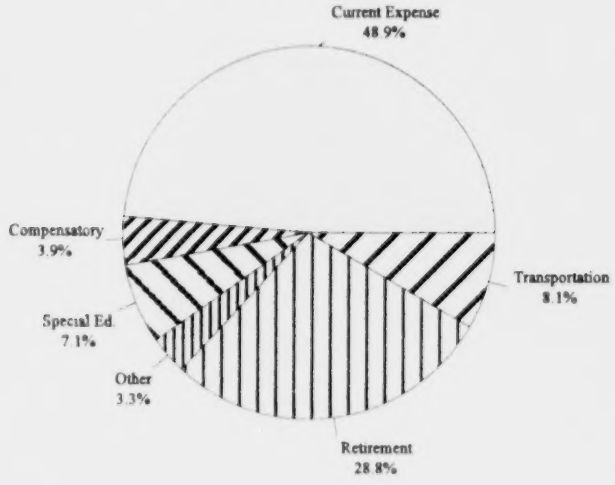
Other Methods: This category includes primarily those grants supporting a specific programmatic goal such as improving student performance. Examples are the extended elementary, Maryland's tomorrow, magnet school, and challenge grant programs and the Baltimore City Partnership funding.

Aid Patterns Have Changed Since the Early 1990's

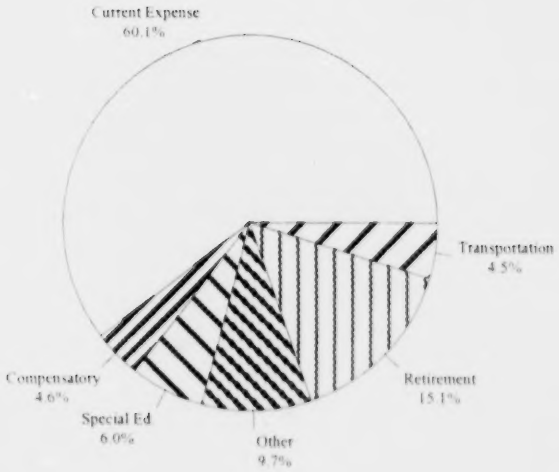
The changes in education aid beginning with fiscal 1992 have resulted in a significant shift in State aid patterns. As shown in **Exhibit 8**, two programs, current expense and compensatory aid, which distribute aid inverse to local wealth, have grown from 52.8% to 64.7% of the total over the ten year period from fiscal 1991 to 2000. Three factors account for this shift: 1) Beginning with implementation of the Civiletti Task Force recommendations in fiscal 1985 and the subsequent enhancements in funding in fiscal 1988, annual growth in current expense and compensatory aid has exceeded growth in the other programs; 2) Cost containment actions enacted in 1992 included a significant reduction in student transportation grants and the elimination of State funding of teachers social security costs; and 3) A declining retirement contribution rate driven primarily by retirement fund investment earnings has lead to lower teachers retirement payments by the State (a 12% decrease since fiscal 1997.) Between fiscal 1991 and 2000 the aid falling into the "other" category has also increased significantly, growing from 3.3% to 9.7% of aid. This reflects an increasing reliance on smaller categorical aid programs this decade, culminating with the Baltimore City Schools legislation enacted in 1997 and SAFE in 1998.

Exhibit 8
State Education Aid
Programmatic Distribution

FY 1991



FY 2000

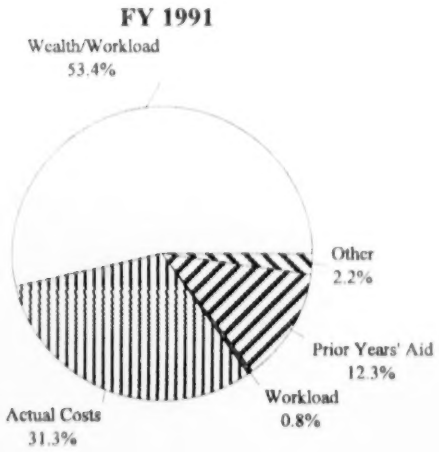


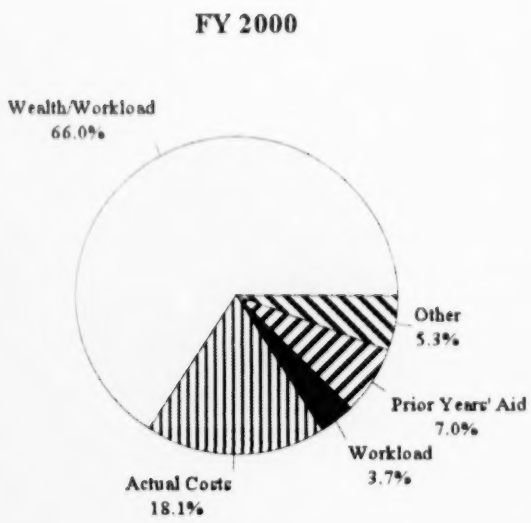
Source: Department of Legislative Services, Maryland State budgets

Comparing education aid categorized by distribution method over the same period reveals a similar pattern. (See **Exhibit 9**.) In fiscal 2000, 66% of education aid will be distributed using the wealth/workload combination approach. This compares to 53% in fiscal 1991. The proportionate decline in aid based on actual costs and prior years' allocations, reflects the elimination of State funded social security costs, lower retirement costs due to investment returns, and the reduction in school bus transportation grants. The slightly greater reliance on other approaches to distributing aid tracks the growth in categorical programs tied to specific educational needs, problems, or State policies.

As a result of the changes that occurred in the early 1990's, a greater share of Maryland's education aid addresses the policy goal that educational opportunities not depend on local fiscal capacity or the ability to raise education funds from local sources. There has also been a greater focus on school performance through State aid programs targeting funds to specific schools.

Exhibit 9
State Education Aid
Distribution Factors





Source: Department of Legislative Services; Maryland State budgets

Expenditures

Primary and secondary education operating and capital expenditures totaled $6.4 billion in fiscal1998. This spending for the public schools accounted for nearly 50% of local government expenditures in fiscal 1998. Instructional outlays are the single largest component of operating expenditures followed by special education expenditures. (See **Exhibit 10** for an expenditure summary and **Exhibit 11** for expenditures on a county-by-county basis.)

Exhibit 10
Education Expenditures
Fiscal 1998

Expenditure Category	Amount ($ in Millions)	Percent of Operating Expenses
Instruction	$2,900.8	51.1%
Special Education*	775.9	13.7%
Administration	149.9	2.6%
Mid-level Administration	439.9	7.7%
Plant Operation/Maintenance	580.2	10.2%
Transportation	298.9	5.3%
Other	88.8	1.6%
State Paid Retirement	445.0	7.8%
Total Operating Expenses	**$5,679.4**	**100.0%**
Food Services	185.4	
School Construction	471.0	
Interest on Debt	75.7	
Total Disbursements	**$6,411.4**	

(1) Fringe benefit costs, other than State paid teachers' retirement for which an allocation is not available, are apportioned to the other expenditure categories.
*Includes public and non-public special education.
Source: Selected Financial Data, Maryland State Department of Education

Exhibit 11
Expenditures for Primary and Secondary Education
Operating Costs by Function
Fiscal 1998

County	Instruction	Special Education	Administration*	Plant Operation/ Maintenance	State Paid Retirement	Student Transportation	Other	Total
Allegany	$38,237,638	$7,911,054	$5,954,555	$7,692,809	$5,609,336	$3,441,556	$1,573,623	$70,420,571
Anne Arundel	245,037,952	56,558,519	53,599,179	50,488,603	39,613,996	25,618,758	4,930,747	475,847,754
Baltimore City	337,404,074	182,679,110	81,220,687	74,882,029	54,558,660	27,683,240	7,641,711	766,069,551
Baltimore	375,650,789	95,674,224	79,125,186	75,229,415	56,832,668	30,384,769	15,398,355	728,295,406
Calvert	47,580,375	9,846,233	7,916,152	10,215,555	6,945,147	6,036,027	1,621,062	90,160,551
Caroline	17,989,039	3,019,657	3,930,968	2,651,152	2,733,900	2,249,272	1,176,632	33,750,620
Carroll	84,144,836	17,033,463	17,289,808	16,624,429	12,743,574	10,890,392	3,334,369	162,060,871
Cecil	47,180,265	10,371,694	10,354,639	8,828,234	7,367,196	4,631,579	1,178,442	89,912,049
Charles	64,973,319	14,799,857	16,781,466	17,133,415	10,728,838	8,112,024	4,479,326	137,008,245
Dorchester	18,578,193	3,261,645	3,885,582	3,093,275	2,620,709	1,931,892	644,684	34,015,980
Frederick	113,584,559	20,422,478	19,562,648	23,128,911	16,427,762	10,865,674	4,886,644	208,878,676
Garrett	18,237,978	3,031,864	3,025,504	3,152,202	2,785,654	2,478,782	801,079	33,513,063
Harford	124,776,754	24,622,232	19,652,165	23,238,733	18,183,477	14,571,302	3,058,776	228,103,439
Howard	148,460,446	31,693,623	31,804,241	29,269,315	23,233,493	13,751,119	6,415,603	284,627,840
Kent	12,534,885	2,044,052	2,453,112	1,986,314	1,599,656	1,159,297	222,412	21,999,728
Montgomery	558,926,072	129,957,366	101,205,035	96,685,914	82,942,843	51,953,717	5,146,746	1,026,817,693
Prince George's	412,237,991	118,915,568	85,962,126	93,949,837	64,740,823	60,029,516	17,525,251	853,361,112
Queen Anne's	22,020,094	4,416,814	4,122,643	3,842,022	3,211,150	2,988,448	689,993	41,291,164
St. Mary's	46,325,330	10,317,753	9,419,395	9,809,089	6,989,847	5,904,102	1,861,735	90,627,251
Somerset	12,082,051	1,885,556	2,751,233	2,111,714	1,830,798	1,624,348	1,042,778	23,328,478
Talbot	15,192,060	2,741,063	2,957,463	2,760,621	2,242,188	1,136,188	292,712	27,322,295
Washington	66,557,153	12,474,427	12,582,880	12,380,178	10,125,806	4,836,685	748,755	119,705,884
Wicomico	46,791,056	8,259,460	9,301,543	7,183,777	7,199,045	3,974,804	3,360,590	86,070,275
Worcester	26,304,796	3,913,056	4,969,508	3,882,023	3,751,121	2,629,718	759,462	46,209,684
Total	**$2,900,807,705**	**$775,850,768**	**$589,827,718**	**$580,219,566**	**$445,017,687**	**$298,883,209**	**$88,791,487**	**$5,679,398,140**

Note: Amounts do not include expenditures for debt service, construction, or food service.
* Includes mid-level administration.
Source: Selected Financial Data, Fiscal 1998, Maryland State Department of Education

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Primary and secondary education expenditures per student increased between fiscal 1988 and 1998. As **Exhibit 12** shows, statewide expenditures per pupil grew 5.1% per year between fiscal 1988 and 1993 and slowed to 2.7% between 1993 and 1998.

In fiscal 1998, the difference in spending per pupil between Montgomery and Caroline, the highest and lowest spending counties, was 1.40 to 1. In other words, Montgomery County spent 40% more per pupil than Caroline County. This translates into a $2,398 difference in per student spending. Spending disparities have declined in the 1990's. In fiscal 1993, the ratio between the highest and lowest spending school systems was 1.55 to one, slightly lower than the fiscal 1988 ratio of 1.67 to one. The significant decrease in disparity between 1988 and 1998 derives from three factors: 1) the greater share of education aid distributed inverse to local wealth; 2) the recent slowdown in local assessable base growth, especially in those jurisdictions with higher property wealth; and 3) generally higher enrollment growth among the wealthiest counties than among the least wealthy counties.

Spending disparities, however, continue to exist. Five factors account for most of the differences in spending per student:

1. Fiscal capacities - counties have different abilities to raise revenues from local sources.

2. Local effort - other priorities may compete for funding and taxpayer support for education may differ among Maryland's counties.

3. Cost differentials - the cost of providing an average mix of classroom resources (teachers and supplies) varies across school districts.

4. Special student populations - students with special needs cost more to educate and the proportion of special needs students varies among Maryland's school districts. (See **Exhibit 13**)

5. Intergovernmental aid - State and federal aid per student varies considerably among the local school systems.

Exhibit 12
Education Expenditures Per Pupil

County	FY 1988	FY 1993	Average Annual Growth 88-93	FY 1998	Average Annual Growth 93-98
Allegany	$3,964	$5,133	5.3%	$6,385	4.5%
Anne Arundel	4,519	5,957	5.7%	6,618	2.1%
Baltimore City	4,049	5,627	6.8%	6,964	4.4%
Baltimore	5,265	6,279	3.6%	7,046	2.3%
Calvert	4,265	5,700	6.0%	6,334	2.1%
Caroline	3,760	4,918	5.5%	6,038	4.2%
Carroll	3,935	5,410	6.6%	6,206	2.8%
Cecil	3,923	5,131	5.5%	6,136	3.6%
Charles	4,052	5,709	7.1%	6,510	2.7%
Dorchester	4,280	5,477	5.1%	6,927	4.8%
Frederick	4,072	5,484	6.1%	6,243	2.6%
Garrett	3,899	5,289	6.3%	6,558	4.4%
Harford	3,940	5,300	6.1%	6,130	3.0%
Howard	5,247	6,656	4.9%	7,337	2.0%
Kent	4,893	6,207	4.9%	8,034	5.3%
Montgomery	6,267	7,629	4.0%	8,436	2.0%
Prince George's	4,847	5,904	4.0%	6,623	2.3%
Queen Anne's	4,521	5,903	5.5%	6,503	2.0%
St. Mary's	4,298	5,839	6.3%	6,471	2.1%
Somerset	3,997	5,245	5.6%	7,761	8.2%
Talbot	4,403	5,381	4.1%	6,312	3.2%
Washington	4,363	5,421	4.4%	6,174	2.6%
Wicomico	3,966	5,180	5.5%	6,369	4.2%
Worcester	5,124	6,165	3.8%	7,110	2.9%
Statewide	**$4,737**	**$6,065**	**5.1%**	**$6,945**	**2.7%**

Note: Amounts do not include expenditures for debt service, construction, food service, and nonpublic special education placements. September 30th enrollment used to calculate per student amounts. Prekindergarten and kindergarten students counted as one-half time if in half-day programs.

Source: Selected Financial Data, Maryland Public Schools, Part II Expenditures, selected years; Department of Legislative Services

Exhibit 13
Selected Public School Data
1997-1998 School Year

	Enrollment	Teachers	% Special Education Students	% Limited English Proficient Students	% Approved for Free/Reduced Price Meals
Allegany	11,110	700	15.0	0.1	45.5
Anne Arundel	73,363	4,133	13.5	0.7	16.4
Baltimore City	107,416	5,994	16.4	0.5	67.9
Baltimore	104,708	6,574	12.0	1.3	27.3
Calvert	14,736	763	12.6	0.1	14.6
Caroline	5,635	323	13.9	1.2	41.7
Carroll	26,823	1,469	13.6	0.3	9.3
Cecil	15,327	959	14.7	0.3	21.6
Charles	21,620	1,222	12.4	0.4	21.9
Dorchester	5,175	317	13.1	0.8	47.7
Frederick	34,569	2,015	12.7	0.5	14.9
Garrett	5,105	353	14.4	0	44.5
Harford	38,572	2,193	12.9	0.5	17.6
Howard	40,215	2,582	9.9	2.3	10.6
Kent	2,903	179	12.0	0.9	38.1
Montgomery	125,023	7,545	11.8	6.4	22.4
Prince George's	128,347	7,243	9.4	3.7	41.3
Queen Anne's	6,607	367	13.0	0.3	17.8
St. Mary's	14,691	862	14.0	0.5	23.9
Somerset	3,162	207	12.7	1.1	54.5
Talbot	4,557	270	12.3	0.9	26.3
Washington	20,019	1,225	14.1	0.6	28.0
Wicomico	14,229	925	11.2	1.4	34.2
Worcester	6,832	439	11.5	0.8	34.0
Statewide	**830,744**	**48,859**	**12.5**	**2.1**	**30.9**

Source: Maryland State Department of Education, 1998 Maryland School Performance Report, Fact Book 1997-1998

School Construction

In addition to the financing of operating expenditures for public education, both the State and local jurisdictions contribute to capital costs. The State began incentive aid for school construction in 1947. The Public School Construction Program, which was established in 1971, is administered by the Interagency Committee on Public School Construction (IAC). The current program provides State funding for eligible and justified public school construction projects approved by the Board of Public Works. The State share of construction costs for a county is based on the current expense formula. As shown in **Exhibit 14**, with two exceptions, there are seven levels of State sharing based on the average State shares of the minimum foundation from fiscal 1992 and 1994.

The Governor has pledged at least $1 billion in State funding for public school construction during this four-year term, fiscal 2000 to 2003. As shown in **Exhibit 15**, the first installment, $257.5 million in fiscal 2000, represents about 71% of the $361 million requested by the 24 jurisdictions for that year.

Exhibit 14
Public School Construction
State/Local Cost Share Amounts

50/50	55/45	60/40	65/35	70/30	75/25	80/20
Anne Arundel	Calvert	Prince George's[1]	Carroll	Cecil	Allegany	Somerset
Baltimore County	Queen Anne's		Charles	Dorchester	Baltimore City[2]	
Howard			Frederick	Garrett	Caroline	
Kent			Harford	St. Mary's		
Montgomery			Washington	Wicomico		
Talbot						
Worcester						

[1] For fiscal 1999 through 2002, Prince George's County's match will be 25% for the first $35 million allocated by the State and 40% on any State funds in excess of $35 million. At least $20 million of the State funds must be spent each year on neighborhood school projects.

[2] For fiscal 1998 through 2002, Baltimore City's match will be 10% for the first $10 million allocated by the State and 25% on any State funds in excess of $10 million.

Exhibit 15
Fiscal 2000 Capital Improvement Program

County	Request	Initial Allocation*	% of Request	Final Allocation+	% of Request
Allegany	$2,921,000	$2,698,000	92.4%	$2,921,000	100.0%
Anne Arundel	15,186,000	7,038,000	46.3%	13,183,000	86.8%
Baltimore City	25,637,000	20,659,000	80.6%	25,070,000	97.8%
Baltimore	36,902,000	17,787,000	48.2%	30,011,000	81.3%
Calvert	7,322,000	5,510,000	75.3%	7,304,000	99.8%
Caroline	600,000	488,000	81.3%	600,000	100.0%
Carroll	21,968,000	6,322,000	28.8%	8,332,000	37.9%
Cecil	6,143,000	5,143,000	83.7%	5,643,000	91.9%
Charles	10,367,000	6,913,000	66.7%	9,353,000	90.2%
Dorchester	891,000	732,000	82.2%	889,000	99.8%
Frederick	35,261,000	9,654,000	27.4%	11,020,000	31.3%
Garrett	176,000	176,000	100.0%	176,000	100.0%
Harford	11,657,000	7,346,000	63.0%	8,414,000	72.2%
Howard	41,591,000	9,857,000	23.7%	16,024,000	38.5%
Kent	336,000	336,000	100.0%	336,000	100.0%
Montgomery	57,453,000	31,787,000	55.3%	50,165,000	87.3%
Prince George's	39,517,000	28,706,000	72.6%	39,517,000	100.0%
Queen Anne's	8,659,000	6,178,000	71.3%	6,944,000	80.2%
St. Mary's	18,565,000	9,494,000	51.1%	10,348,000	55.7%
Somerset	160,000	160,000	100.0%	160,000	100.0%
Talbot	195,000	0	0.0%	85,000	43.6%
Washington	3,755,000	3,234,000	86.1%	3,560,000	94.8%
Wicomico	9,843,000	4,285,000	43.5%	4,285,000	43.5%
Worcester	6,879,000	3,160,000	45.9%	3,160,000	45.9%
Subtotal	$361,984,000	$187,663,000	51.8%	$257,500,000	71.1%
Unallocated**		$62,337,000		$0	
Total	**$361,984,000**	**$250,000,000**	**69.1%**	**$257,500,000**	**71.1%**

*The "Initial Allocation" is made prior to the upcoming legislative session.
+The "Final Allocation" reflects additional funding available through a supplemental budget and the contingency fund.
**The legislature's target of 75% of funds being allocated by the Board of Public Works prior to the start of the legislation session was met for the fiscal 2000 budget.

Appendix 1

Current Expense Formula ($1,567.7 Million and 60.1% of FY 2000 Aid)

The current expense formula is Maryland's basic support program, distributing over $1.56 billion to the local boards of education. It accounts for about 60.1% of the State's education aid in fiscal 2000. This formula has been a key component of Maryland's education funding since 1973. Legislation enacted by the 1987 General Assembly provides for automatic increases in current expense formula aid. The minimum funding level is based on prior years' actual spending. The $48.9 million fiscal 2000 increase results from higher enrollment and prior years' spending growth.

- The formula guarantees a minimum funding level per pupil and requires the counties to provide a local match; all counties currently appropriate amounts considerably above the required local match. The pupil count used in the current expense formula is the full-time equivalent (FTE) school enrollment as of September 30 of the previous school year. Therefore, fiscal 2000 current expense aid is based on enrollment from September of 1998. The FTE count does not include prekindergarten students and, with the exception of Garrett County, includes one-half the number of students enrolled in kindergarten. The FTE computation includes evening high school students and excludes out-of-state students.

- The current expense formula is a "minimum foundation" formula. Under a minimum foundation approach, local school systems are guaranteed a minimum funding level per pupil. In fiscal 2000, the minimum foundation is $3,901 per pupil. The current expense formula determines the State and local shares of the foundation for each school system. Overall, the State share of the foundation in fiscal 2000 is $1,982 per pupil or a little over 50% of the foundation.

- The formula recognizes the disparities in local abilities to raise revenues from local sources by providing less wealthy counties relatively more aid than more wealthy counties -- the formula "equalizes" education spending (See **Exhibit 16**). Aid per student is distributed inverse to wealth per student. For example, in fiscal 2000, Worcester County, the "wealthiest" county will receive $512 per pupil, whereas Baltimore City, the "least wealthy" county will receive $2,899 per pupil. **Exhibit 17** graphically shows the relationship between wealth per student and aid per student under the formula. For purposes of the formula, wealth includes the two major local tax bases -- net taxable income and assessable base. The counties are required to fund the difference between the minimum foundation and the State share of the foundation.

Exhibit 16

Basic Current Expense Formula Aid - FY 2000

Foundation: $3,901

Local Contribution Rate: 0.0075438

County	FTE Enrollment 9/30/98	Basic Program $3,901 Times Enrollment	Wealth Base	Local Share $3,901 Program	State Share $3,901 Program	Per Pubil State Aid*	State Aid Prior Year $3,829 Program	Difference Over Prior Year	Per Pupil Difference
Allegany	10,345.00	40,355,845	1,713,380,273	12,925,398	27,430,447	2,652	27,974,521	(544,074)	-19
Anne Arundel	70,544.50	275,194,095	20,760,835,570	156,615,591	118,578,503	1,681	115,369,005	3,209,498	29
Baltimore City	98,160.00	382,922,160	13,037,927,416	98,355,517	284,566,643	2,899	281,062,871	3,503,773	59
Baltimore	99,240.25	387,136,215	28,865,435,264	217,755,071	169,381,145	1,707	166,030,054	3,351,090	11
Calvert	14,427.75	56,282,653	3,497,080,284	26,381,274	29,901,379	2,072	27,882,031	2,019,347	78
Caroline	5,311.50	20,720,162	739,836,798	5,581,181	15,138,981	2,850	14,736,208	402,773	49
Carroll	26,070.75	101,701,996	5,463,746,383	41,217,410	60,484,586	2,320	58,356,667	2,127,919	43
Cecil	14,512.00	56,611,312	2,750,244,322	20,747,293	35,864,019	2,471	34,821,482	1,042,537	40
Charles	20,947.00	81,714,247	4,453,564,298	33,596,798	48,117,449	2,297	45,245,734	2,871,715	76
Dorchester	4,732.75	18,462,458	895,411,413	6,754,805	11,707,653	2,474	11,627,469	80,184	40
Frederick	33,432.75	130,421,158	7,353,577,300	55,473,916	74,947,241	2,242	72,256,564	2,690,678	36
Garrett	4,937.25	19,260,212	966,854,036	7,293,753	11,966,459	2,424	12,003,358	(36,899)	17
Harford	36,706.00	143,190,106	7,711,606,618	58,174,818	85,015,288	2,316	83,140,741	1,874,547	24
Howard	40,107.00	156,457,407	12,088,886,526	91,196,142	65,261,265	1,627	60,811,876	4,449,389	48
Kent	2,658.50	10,370,809	752,010,490	5,673,017	4,697,792	1,767	4,582,069	115,722	40
Montgomery	120,893.75	471,606,519	49,091,421,359	370,335,864	101,270,654	838	94,839,105	6,431,549	34
Prince George's	122,344.00	477,263,944	25,163,475,930	189,865,949	287,397,995	2,349	274,355,805	13,042,190	72
Queen Anne's	6,362.75	24,821,088	1,711,175,767	12,908,768	11,912,320	1,872	11,029,379	882,941	72
St. Mary's	13,672.75	53,337,398	2,832,759,115	21,369,768	31,967,630	2,338	31,824,302	143,327	0
Somerset	2,834.00	11,055,434	436,774,270	3,294,938	7,760,496	2,738	7,779,684	(19,187)	35
Talbot	4,268.50	16,651,419	1,847,658,729	13,938,368	2,713,051	636	2,821,034	(107,983)	-26
Washington	18,930.50	73,847,881	3,856,856,551	29,095,354	44,752,526	2,364	44,153,225	599,301	28
Wicomico	13,139.00	51,255,239	2,353,957,283	17,757,783	33,497,456	2,549	32,992,795	504,661	38
Worcester	6,486.50	25,303,837	2,913,912,566	21,981,974	3,321,863	512	3,044,265	277,598	37
Total	**791,064.75**	**$3,085,943,590**	**201,263,388,561**	**1,518,290,751**	**1,567,652,839**	**1,982**	**1,518,740,243**	**48,912,596**	**36**

Prepared by the Department of Legislative Services

Note: Per pupil State aid is inversly related to wealth per pupil.

*Here per pupil aid is calculated based on FTE enrollment as of 9/30/98

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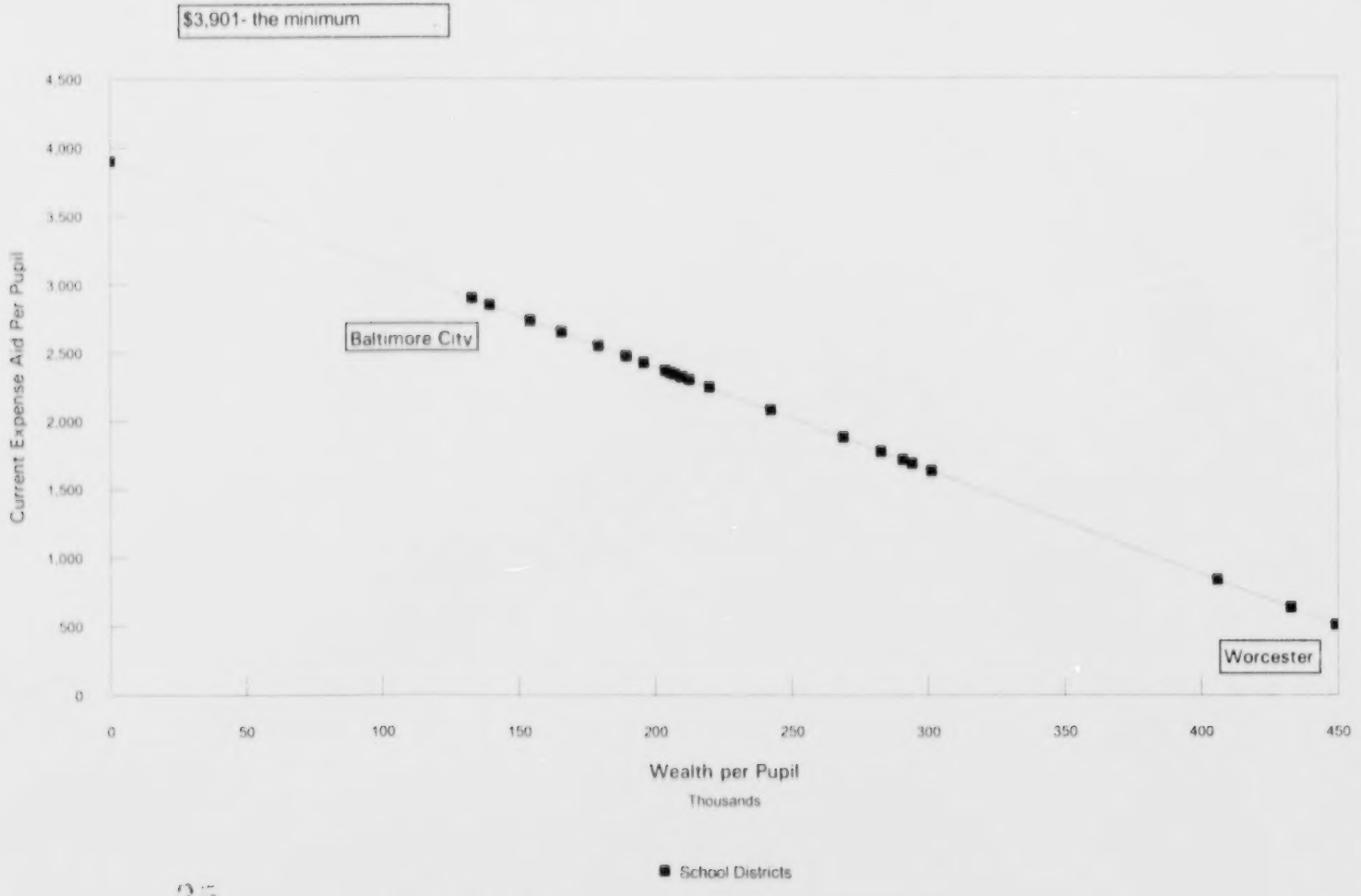
Exhibit 17
Current Expense Aid Formula
Aid Per Pupil vs. Wealth Per Pupil



Source: Department of Legislative Services

Compensatory Aid Formula ($119.9 Million and 4.6 % of FY 2000 Aid)

The compensatory aid formula distributes aid to local school boards based on the number of students from economically disadvantaged environments (as measured by the student counts used for federal Title I aid). Increases in compensatory aid are tied to increases in the current expense formula. In fiscal 2000, compensatory aid grows $18.2 million or 18%.

- Compensatory aid is based on the student poverty counts used for the distribution of federal Title I aid. These Title I eligible counts are an indication of the number of students from economically disadvantaged environments.

- It recognizes local fiscal disparities by adjusting the grants per Title I student by local wealth: the less wealthy counties receive relatively more aid per Title I student.

- The overall funding level rises with growth in the per pupil minimum foundation under the current expense formula. Before adjusting for local wealth, a county's grant per Title I student equals 25% of the minimum foundation.

- About 25% of the aid must be used for programs for students from economically or educationally deprived environments.

Teachers' Retirement ($394.9 Million and 15.1% of FY 2000 Aid)

The State pays 100% of the employers' share of retirement costs for school system employees who are members of the Teachers' Retirement and Pension Systems maintained and operated by the State. In fiscal 2000, the State share is $394.9 million, which comprises 15.1% of education aid. The $20.8 million decrease in fiscal 2000 results from a decrease in the calculated contribution rate from 13.99% to 12.54%.

- Rather than distributing the aid to the school boards and billing them for the retirement contributions, the State appropriates a lump sum payment to the retirement system "on behalf of" the local school boards. The appropriation is based on an estimate of the prior year's salary base. Local school systems are required to pay the retirement costs associated with employees funded under federal programs. The county-by-county aid amounts shown in **Exhibit 5** are estimates based on each school board's share of the total salary base.

- Variations in the estimates of each county's aid per student reflect differences in salary levels and staffing ratios among the counties.

Special Education Grants ($158.1 Million and 6.0% of FY 2000 Aid)

State aid for special education recognizes the additional costs associated with providing programs for students with disabilities. Most special education students receive services in the public schools; however, if an appropriate program is not available in the public schools students may be placed in a private school offering more specialized services. The fiscal 2000 funding for special education includes $81.3 million based on the county-by-county formula and $76.8 million for non-public placements. In addition, a deficiency appropriation will likely be required.

- $11.3 million of the $81.3 million for special education programs in the public schools is based on the number of special education students in each jurisdiction adjusted by county wealth. This portion of the grant is not mandated by statute. The Governor has provided funding on this basis in the State budget since fiscal 1988. Each county's share of the remaining $70 million equals what the county received under the original formula in fiscal 1981. The old formula based aid on total enrollment and a 1976 special education cost index.

- For special education students placed in non-public day and residential programs, the counties are responsible for the local share of the basic costs of educating a child plus 200% of total basic costs. Any costs above the base amount are shared between the State and the local school boards on a 80% State/20% local basis. State costs for non-public placements have more than doubled from $34.0 million in fiscal 1991 to $76.8 million in fiscal 2000, not even including an anticipated fiscal 2000 deficiency of $24.9 million.

Student Transportation Grants ($117.5 Million and 4.5% of FY 2000 Aid)

The fiscal 2000 budget includes $112.3 million for transportation. In addition, $5.2 million is provided to partially cover the costs of transporting disabled students.

- Each county receives a grant for student transportation based on the county's grant in the previous year increased by the change in the Baltimore area consumer price index for private transportation. Increases cannot exceed 8% or be less than 3%. Legislation enacted by the 1992 General Assembly reduced the transportation grant from $141.2 million to $86.2 million. Subsequent increases have been from this lower base.

- As a result of legislation enacted in 1996, beginning with fiscal 1998 counties with enrollment increases receive additional funds.

- The formula grants for transporting disabled students recognize additional transportation costs. Each school board receives $500 per special education student in excess of the number transported in fiscal year 1981.

Baltimore City Partnership ($50.0 Million)

The fiscal 2000 budget includes $50 million in funding for the Baltimore City Public Schools under the Baltimore City Partnership program. Legislation passed by the 1997 General Assembly (SB 795) restructured the management of the Baltimore City Public Schools contingent upon the inclusion of an additional $30 million in the fiscal 1998 State budget for the city schools, which was appropriated. The legislation requires that the additional funding increase to $50 million for fiscal 1999 through 2002. Failure to appropriate the funds in any year abrogates the legislation and the management restructuring of the city school system.

The appropriation of an additional $31.6 million to the 23 other counties is also required by the law annually through fiscal 2002. **Appendix 2** summarizes the funding included in the Baltimore City Schools legislation and the SAFE legislation.

Poverty Grants ($47.6 Million)

The following four grant programs are based in some way on free and reduced price meal (FRPM) counts.

- **Targeted Improvement Grants (TIG) ($21.4 Million).** The TIG, established by the 1998 SAFE legislation, are distributed based on 85% of the number of children eligible for FRPM adjusted for county wealth per full-time equivalent student.

- **Targeted Poverty Grants ($8 Million).** This statutory program distributes funds proportional to the number of FRPM student in each jurisdiction.

- **Additional Poverty Grants ($1.6 Million).** These funds were first provided in the fiscal 1998 State budget to the six school systems, excluding Baltimore City, with FRPM counts greater than 40% of enrollment.

- **New Targeted Poverty Grants ($16.6 Million).** This program, established under the Baltimore City Schools legislation, distributed funds to all school systems except Baltimore City, proportional to the number of FRPM students at that time, with no provision for updating each county's allocation based on changes in FRPM counts.

Limited English Proficiency Grants ($25.2 Million)

Under this program, the State provides grants to support programs for non- and limited-English proficient students using a definition that is consistent with federal guidelines.

- For purposes of this program non- and limited-English proficient student means a student identified as such under the Maryland State Department of Education's Maryland School Performance reporting requirements. To be eligible for the grants, county school boards must have approved programs for providing instruction and services to limited English proficient students. School boards must annually report the actual expenditures of State funds on non- and limited English proficiency (LEP) programs.

- Beginning with fiscal 1996, the statute specifies that the local school boards receive $500 for each LEP student. No student may be included in the LEP count for more than two years. As a result of the SAFE legislation in 1998, the grant was increased to $1,350 per student and the two-year cap was removed.

- The additional funds under the 1997 Baltimore City Schools legislation provide $500 per student for those students identified as non- and limited-English proficient but not included in the count for formula funding in 1997, because the students had already been in the count for two years. In addition, a school system with the number of LEP students exceeding 5% of enrollment receives an additional $250,000. Only Montgomery County qualifies for this additional grant.

Teacher Development/Teacher Mentoring ($21.5 Million)

- **Effective Schools, Student Support Services, and Provisional/Teacher Development in Prince George's County ($5.5 Million).** As part of the 1998 SAFE legislation, State funding was provided for specific programs in Prince George's County. This includes $2 million for the effective schools program, $1 million for a pilot integrated student support services project, and $2.5 million for provisional teacher certification and teacher development initiatives.

- **Teacher Development Grants ($6.1 Million).** $5.6 million is provided to local school systems to enhance teacher development in dealing with at-risk students with grants based on FRPM counts. In addition, $500,000 is included to fund statewide provisional teacher certification and teacher development initiatives.

- **Baltimore and Prince George's Counties Mentoring Programs ($9.9 Million).** These pilot programs are intended to improve student achievement by improving the quality of the teacher workforce and reduce the turnover rate of teachers.

Extended Elementary Education ($19.3 Million)

The extended elementary education program supports public school prekindergarten for four-year old children who live in Title I eligible school attendance areas. The fiscal 2000 budget includes a total of $19.3 million. The approximately 250 sites are funded at about $65,000 each.

- The funding supports public school prekindergarten programs for four-year old children who may be at risk of failure. The program is based on the theory that early intervention: (1) increases students' opportunity to realize their educational potential; and (2) reduces future educational and societal costs.

- County boards of education submit proposals for sites to the State Department of Education, which then determines how many sites can be funded within the appropriation in the State budget. The department distributes the money to the counties based on the schools' Title I eligibility and general need. For the additional $3.3 million committed under SB 795, each school system's share is specified in the legislation.

- The SAFE legislation provided an additional $4.4 million for the program for 24 additional sites, increased funding for existing sites, and $1 million to address other early intervention strategies.

Magnet Schools ($14.1 Million)

Prince George's County will receive $14.1 million in the fiscal 2000 State budget for the county's magnet school programs. Of this amount $1.1 million is part of a five-year commitment of funding incorporated in the 1997 Baltimore City Schools legislation. Initiated in fiscal 1987, this aid supports the Prince George's County Public Schools Magnet School Program. The Magnet School Program was approved by the U.S. District Court to provide for desegregation of the Prince George's County Public Schools and to improve the quality of instruction for all county students.

Aging Schools ($10.4 Million)

The fiscal 2000 State budget includes $10.4 million to provide funds to local school systems for the improvements, repairs, and deferred maintenance of public school buildings exceeding 15 years of age. The Aging Schools Program is operated by the Public School Construction Program and covers repairs not eligible for other State school construction funding. Each school system's share of the total funding is generally consistent with the school system's share of school building square footage constructed prior to 1960. A five-year commitment of funding for this new program is incorporated in the 1997 Baltimore City Schools legislation as well as in the 1998 SAFE legislation. The legislation specifies each school system's share of the funding.

Maryland's Tomorrow ($10.0 Million)

The Maryland's Tomorrow Program is designed to identify at-risk youth enrolled in public schools and provide them with individualized educational, training, and support services to prevent school dropouts. At-risk youth are defined as those who score below their grade level on the California Achievement Test in reading or math or who have been retained at least one grade. Funds for Maryland's Tomorrow are received directly by the local Private Industry Councils (PIC) based on an annual service proposal developed jointly by the local PIC and school board. The fiscal 2000 appropriation for the high school portion of Maryland's Tomorrow is $8 million.

A related program, the Choice Middle School Program, provides dropout prevention services for middle school students. Starting with the 1994 school year, approximately 800 students have been receiving dropout prevention services through this program. Funds for the Choice Middle School Program are received by the University of Maryland Baltimore County, which operates the program. Funding totals about $2 million in fiscal 2000.

Reconstitution Eligible Schools ($9.8 Million)

Currently 97 schools are eligible for State takeover due to poor and declining performance. In addition to technical assistance, in fiscal 2000, Baltimore City's 83 schools received $7.8 million, Prince George's County's 12 schools received $1.6 million, and Anne Arundel and Somerset Counties received $350,000 combined for one school each.

Education Modernization ($7.8 Million)

The fiscal 2000 State budget includes $7.8 million for the fourth year of this multi-year initiative. The initiative provides schools access to on-line computer resources and capacity for data, voice, and video equipment. The funds will be used for equipment purchases, software, and staff development. Another $7.0 million is included under the school construction program to upgrade the wiring in 132 schools.

Challenge Grants ($5.8 Million)

Chapter 210 of the Acts of 1992 provides for the distribution of "Challenge Grants" to low performing schools for the purpose of school improvement based on Schools for Success goals. The Maryland State Department of Education releases funds to these schools only after it approves certain aspects of each school's improvement plan.

Although there is specific legislative authorization for the program the funding level is at the discretion of the Governor and the General Assembly.

Gifted and Talented Programs ($4.9 Million)

The fiscal 2000 State budget includes $4.9 million to augment educational services for gifted and talented students.

- Since fiscal 1994, Baltimore City has received $1.0 million for gifted and talented programs at five high schools in the city.

- Beginning with fiscal 1998, an additional $2.0 million will be used to support gifted and talented programs in Montgomery County. The funds are committed for five years under the 1997 Baltimore City Schools legislation.

- The remaining $1.9 million funds the Maryland Summer Centers for Gifted and Talented Students, the formula-based Governor's Local Education Agency Gifted and Talented Program Development Grants, and the competitively-awarded Governor's Local Education Agency Gifted and Talented Education Incentive Grants.

Appendix 2

Additional State Education Funding under Baltimore City Schools Legislation (SB 795) and School Acountability Funding for Excellence (SAFE) Program (HB 1)

(in Thousands)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 98-02
Baltimore City - State Partnership Grant - SB 795	$30,000	$50,000	$50,000	$50,000	$50,000	$230,000
Additional Poverty Grants - SB 795	16,563	16,563	16,563	16,563	16,563	82,817
Limited English Proficiency Grant						
SB 795	1,904	1,904	1,904	1,904	1,904	9,518
SAFE	0	15,327	16,500	17,800	19,000	68,627
Targeted Improvement Grant (SAFE)	0	20,646	21,400	21,450	22,299	85,795
Extended Elementary Education Program						
SB 795	3,290	3,290	3,290	3,290	3,290	16,450
SAFE	0	4,366	4,366	4,366	4,366	17,463
Teacher Development/Mentoring Grants						
Teacher Development Grant (SAFE)	0	5,488	5,616	5,784	5,900	22,788
Baltimore County Teacher Mentoring Grant (SB 795)	2,400	2,400	2,400	2,400	2,400	12,000
Baltimore County Teacher Development Grant (SAFE)	0	5,000	5,000	5,000	5,000	20,000
Prince George's County Teacher Development Grant (SAFE)	0	2,000	2,000	2,000	2,000	8,000
Statewide Teacher Certification/Development Initiatives (SAFE)	0	500	500	500	500	2,000
Aging Schools Program						
SB 795	4,350	4,350	4,350	4,350	4,350	21,750
SAFE	0	6,020	6,020	6,020	6,020	24,080
School Libraries Grant (SAFE)	0	3,000	3,000	3,000	3,000	12,000
Innovative Programs						
Montgomery County Gifted and Talented Grant - SB 795	2,000	2,000	2,000	2,000	2,000	10,000
Prince George's County Magnet Schools Grant - SB 795	1,100	1,100	1,100	1,100	1,100	5,500
Prince George's County Special Grants - SAFE	0	5,500	5,500	5,500	5,500	22,000
Total	**$61,607**	**$149,454**	**$151,509**	**$153,026**	**$155,191**	**$670,787**
City School Legislation (SB 795)	$61,607	$81,607	$81,607	$81,607	$81,607	$388,034
SAFE Legislation (SB 171/HB 1)	$0	$67,847	$69,902	$71,419	$73,584	$282,753

Prepared by the Department of Legislative Services, November 1999